

Tennessee Student Assistance Corporation
For the Year Ended
June 30, 2003

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

July 29, 2004

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Michael C. Roberts, Executive Director
Tennessee Student Assistance Corporation
1950 Parkway Towers
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Student Assistance Corporation for the year ended June 30, 2003. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The corporation's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
04/013

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2003

AUDIT OBJECTIVES

The objectives of the audit were to consider the corporation's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDINGS

The Student Loan Information Reflected in the Corporation's System Was Not Always Correct*

The Tennessee Student Assistance Corporation (TSAC) has not ensured that the status of outstanding loans is correct in the student loan information database. Based on the audit procedures performed, for the 7 of 40 loans tested (18%), the student status shown in the corporation's system did not agree with the status reported by the lender. Furthermore, for one of the 40 loans tested (3%), the lender could not confirm a record of the loan; therefore, the authenticity of the loan could not be verified (page 8).

*This finding is repeated from a prior audit.

TSAC Did Not Report a Liability Owed to the Secretary of Education

TSAC's review of a technology center revealed that the school awarded Title IV funds to a student who did not meet the eligibility criteria. As result, the student was not eligible for the federal financial aid received. TSAC did not demand the school's prompt repayment of these funds to the Secretary of Education. TSAC decided not to assess the liabilities because the student had already successfully completed the program of study. There are no provisions in the federal regulations that allow TSAC to waive such liabilities (page 10).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2003

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Tennessee Student Assistance Corporation For the Year Ended June 30, 2003

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Student Assistance Corporation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Student Assistance Corporation was chartered by the General Assembly in 1947 to aid residents of the state who desire to further their education beyond high school. The corporation is responsible for administering several student financial assistance programs supported by federal and state funds. These programs include the Federal Stafford Loan Program, Federal Parents Loans for Undergraduate Students (FPLUS) Program, Robert C. Byrd Honors Scholarship Program, Tennessee Student Assistance Award Program, Christa McAuliffe Scholarship Program, Ned McWherter Scholars Program, Minority Teaching Fellows Program, Tennessee Teaching Scholars Program, and Dependent Children’s Scholarship Program.

ORGANIZATION

The corporation is governed by a board of directors, and the executive director is responsible for implementing the board’s policy. The board includes the Governor, the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Commissioner of Education, the Executive Director of the Tennessee Higher Education Commission, the Chancellor of the Tennessee Board of Regents, and the President of the University of Tennessee.

The corporation contracted with GuaranTec, LLP, of Jacksonville, Florida, to service its Federal Stafford Loan, FPLUS, and Consolidated Loan programs. The loan servicer is responsible for

processing and approving new loans and default claims from lenders. The loan servicer also collects payments on defaulted loans from borrowers and is responsible for processing and collecting bankruptcy claims from borrowers.

An organization chart for the corporation is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 2002, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2003, and for comparative purposes, the year ended June 30, 2002. The corporation has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 60 of the State of Tennessee Accounting and Reporting System (allotment code 332.04) and a portion of fund 25 (allotment codes 332.03, 332.05, and 332.07).

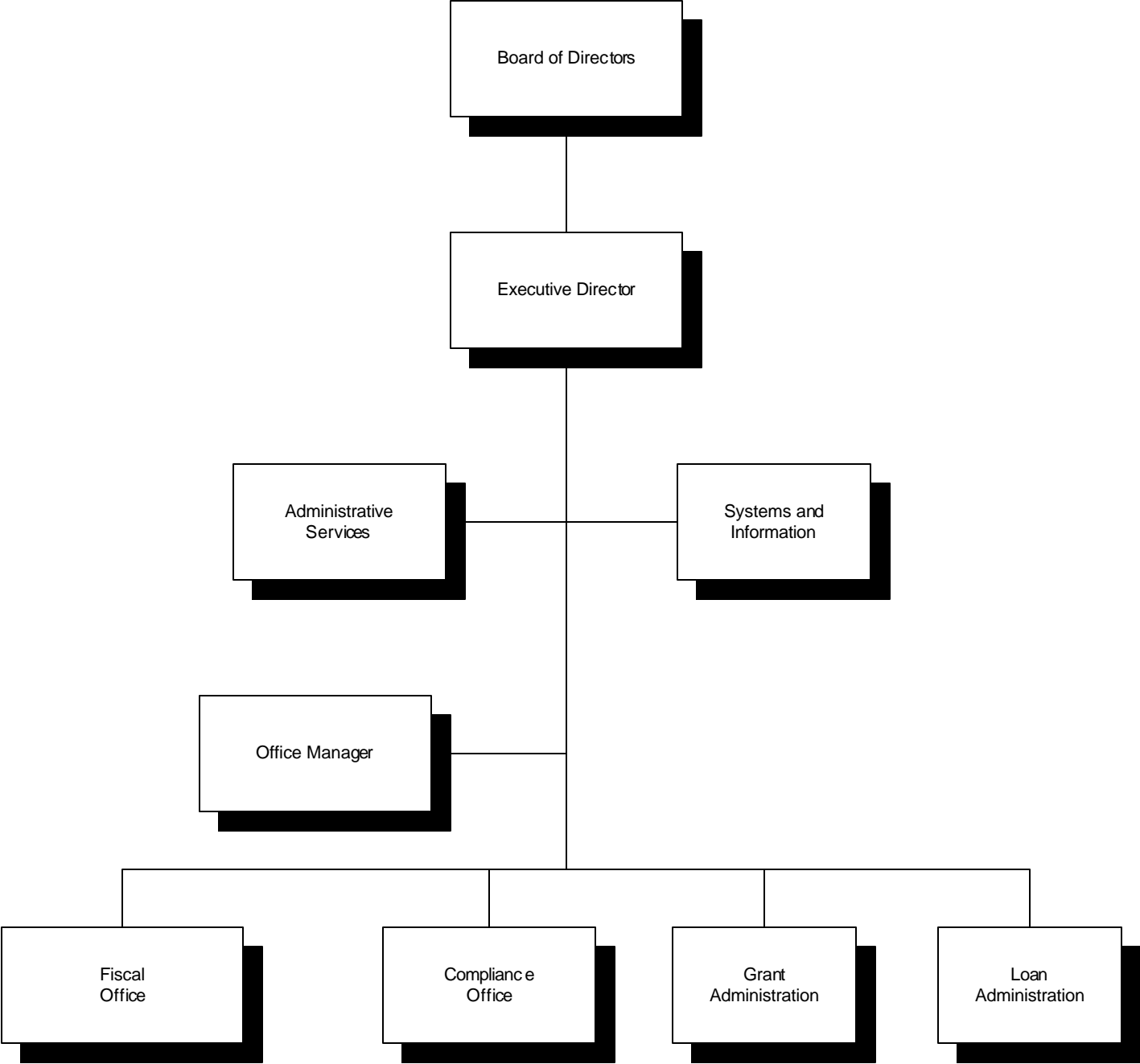
OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the corporation's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

**TENNESSEE STUDENT ASSISTANCE CORPORATION
ORGANIZATION CHART**



PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by each June 30. The Tennessee Student Assistance Corporation filed its compliance report and implementation plan on June 30, 2003.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

At the conclusion of fieldwork, management expressed its desire to obtain clarification as to the term “approved Tennessee lender” in accordance with the provisions of Section 49-4-203, *Tennessee Code Annotated*, as used in conjunction with guaranteeing loans under the Higher Education Act of 1965, as amended. On June 23, 2004, the corporation requested an Attorney General’s opinion on the matter.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the corporation’s financial statements for the year ended June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose

of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the corporation's financial statements.



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DIVISION OF STATE AUDIT
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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

December 15, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the corporation's financial statements are free of material misstatement, we performed tests of the corporation's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan
December 15, 2003
Page Two

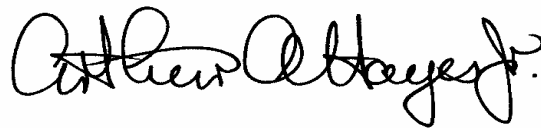
We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance, which we have reported to the corporation's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting, which we have reported to the corporation's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

FINDINGS AND RECOMMENDATIONS

1. The student loan information reflected in the corporation's system was not always correct

Finding

As stated in a previous audit, the Tennessee Student Assistance Corporation (TSAC) has not ensured that the status of outstanding loans is correct in the student loan information database. Management concurred with the previous finding and stated they were working with lenders and servicers to improve the reporting of status changes of loans. Improvement was noted in the prior audit and the audit finding was not taken. However, results of the current audit indicated that problems with the reporting of student loan status have reoccurred.

A random sample of student loans with a status of "in school" or "repayment" was selected from the Tennessee Student Assistance Corporation's listing of outstanding loans. For each sample loan, the school or lender (current holder of the loan) was contacted to confirm the authenticity and status of the loan. Based on the audit procedures performed, for 7 of 40 loans tested (18%), the student status shown in the corporation's system did not agree with the status reported by the lender. Furthermore, for one of the 40 loans tested (3%), the lender could not confirm a record of the loan; therefore, the authenticity of the loan could not be verified.

The amount of loans in repayment status is used in the calculation for determining the reinsurance rate that the U.S. Department of Education (ED) pays to the corporation. The information on the National Student Loan Data System (NSLDS) is used by ED to calculate the amount of loans in repayment. If loans are not correctly shown in a repayment status in the corporation's system, then the amount reflected on NSLDS may be in error, and the amount paid to TSAC for reinsurance may be incorrect.

TSAC's procedures for ensuring the correct status include periodic counseling sessions with lenders to discuss the various loan program requirements, including the reporting of changes in student status. TSAC also provides a Loan Status Update Form, and lenders can submit status change data via hardcopy, tape e*CLIPS (the loan Internet application and transaction processing tool), and Common Line 4 format via FTP server. When a lender submits status change information, the loan servicer's system first determines that the loan is in a status compatible with the change before the change will be accepted. For example, if a loan is currently in an in-school status, a new status of deferment would not be accepted. If the change is rejected, the lender is informed as to the reason and asked for additional information to resolve the rejection. However, it should be noted that section A.4a. of the corporation's contract with the loan servicer requires that all loan maintenance activities either electronically or manually received be processed, returned for correction, or rejected within a maximum turnaround time of five (5) business days, measured from the servicer's initial receipt of the loan maintenance activity to the posting of the activity on the corporation's database.

TSAC did have a system in place to encourage and provide for the reporting of changes in loan status by the lenders and procedures to properly record loans paid in full when the lenders report them. However, as noted above, the testwork indicated that there were problems with lenders reporting status changes. The fact that the lenders are not formally accountable for reporting “paid-in-full” status to TSAC limits the effectiveness of TSAC’s procedures. However, for lenders that are in substantial noncompliance with requirements for student status reporting, TSAC could refuse to guarantee loans, per its enforcement authority under *Code of Federal Regulations*, Title 34, Part 682, Section 410. Exercised appropriately, this authority could effectively prompt lenders to comply.

Recommendation

The director and program administrator should consult the U.S. Department of Education and the corporation’s loan servicer to determine what further procedures can be established to ensure that updated student loan information is maintained in the corporation’s system. TSAC should analyze its loan portfolio by lender to identify lenders with material error rates. Appropriate actions should be initiated with respect to those lenders, up to and including refusal to guarantee loans until lenders properly report student information.

Management’s Comment

We concur. TSAC has worked diligently with our lenders and lender services regarding the reporting of status changes in loans. Also, TSAC utilizes a national reporting system (NSLDS) that provides for the reporting of all status changes submitted by a lender servicer through our contracted servicer, Guarantec. Likewise, Guarantec does consistently process all status changes as well within the timeframe referenced in Section A.4.A of our servicing contract.

Status changes that have been rejected back to the lender or lender servicer for additional information will be closely monitored by the Loan Division at TSAC. This issue will also be addressed at TSAC’s Annual Lender Conference in April. The Loan Division at TSAC will also begin a systematic review of older loans in the portfolio to identify those loans with incorrect status information.

2. TSAC did not report a liability owed to the Secretary of Education

Finding

The school program reviews conducted by TSAC for the audit period were tested for various areas of compliance with federal regulations. The U.S. Office of Management and Budget Circular A-133 Compliance Supplement states:

The guaranty agency shall take measures to ensure enforcement of all federal, state, and guaranty requirements and at a minimum, conduct biennial on-site program reviews of such lenders and schools that meet criteria specified in 34 CFR 682.410(c)(1) or are selected using an alternative methodology approved by the Secretary. The guaranty agency is required to use statistically valid techniques to calculate liabilities owed the Secretary that the review indicates may exist; demand prompt payment from the responsible party; and refer to the Secretary any case in which the payment of funds is not made within 60 days. A guaranty is also required to adopt procedures for identifying fraudulent loan applications and undertake or arrange for the prompt and thorough investigation of criminal or other programmatic misconduct by its program participants. It is responsible also for promptly reporting all of the allegations and indications of fraud or misconduct having a substantial basis in fact, and the scope, progress, and results of the agency's investigations.

For each participating school tested, program review files were inspected to confirm that the results of the review were adequately documented, approved by the Executive Director of TSAC, and that any liabilities owed to the Secretary of Education or other responsible parties were properly calculated and reported using a statistically valid technique. Audit procedures were performed on all of the 22 reviews TSAC performed during the audit period. Eleven of these reviews disclosed liabilities due to the Secretary of Education; however, for one of these reviews (10%), the liability imposed was not enforced by TSAC or reported to the Secretary of Education.

The review of a technology center revealed that the school awarded Title IV to a student who did not meet the eligibility criteria, which require a GED equivalent, a high school diploma, or evidence of ability to benefit prior to the award. As a result, the student was not eligible for the \$4,441 of financial aid received. TSAC records documented that the total award was disbursed to the student as follows:

- \$3,439 Federal Pell Grant
- \$600 Federal Supplemental Educational Opportunity Grant
- \$402 Tennessee Student Assistance Award

After the review, the school requested guidance from TSAC on how to repay the funds; however, there was no initial record that TSAC notified school of the final overpayment amount or where to submit the repayment. When TSAC subsequently notified the school that the finding was resolved and the program review was closed, there was no mention of the repayment in the resolution letter submitted from the corporation to the school. It was not until after the auditors inquired about the matter, that TSAC provided documentation stating that it had decided not to assess the liabilities because the student had already successfully completed the program of study. There was no record of this decision in the file prior to the auditor's inquiry. Furthermore, there are no provisions in the federal regulations that allow TSAC to waive such liabilities.

The fact that TSAC did not demand prompt repayment to the Secretary of Education as appropriate of all funds found in the review is an instance of federal noncompliance with the enforcement requirements outlined in the regulation.

Recommendation

The Executive Director and Program Administrator should follow the federal requirements outlined in the applicable regulation. The results of all school program reviews should be adequately documented and reviewed. All decisions reached as a result of the review should be communicated to applicable school personnel. TSAC should demand the prompt repayment from responsible parties to lenders, borrowers, the agency, or the Secretary of Education as appropriate.

Management's Comment

We concur. The Program Administrator will monitor the results of all school program reviews and ensure to the Executive Director that the documentation is accurate and thorough. All decisions reached as a result of the review will be communicated to the applicable school personnel and documented in the review file. If the school review identifies findings that require liabilities be assessed, TSAC will comply. However, TSAC disagrees that this finding "is an instance of federal noncompliance..." TSAC believes this is a matter of misinterpretation of the regulations. In this instance, the ability to benefit is a regulation that requires proof that the student has the ability to benefit from the education. Since the student actually graduated, TSAC incorrectly determined that this in and of itself showed the ability to benefit. TSAC has now corrected procedures that will emphasize compliance at the time of awarding rather than after the fact.



**STATE OF TENNESSEE
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Independent Auditor's Report

December 15, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities, general fund, and the Federal Family Education Loan Trust Fund of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and June 30, 2002, which collectively comprise the corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the corporation's management. Our responsibility is to express opinions on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the respective financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, general fund, and the Federal Family Education Loan Trust Fund of the Tennessee Student Assistance Corporation as of June 30, 2003, and June 30, 2002, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

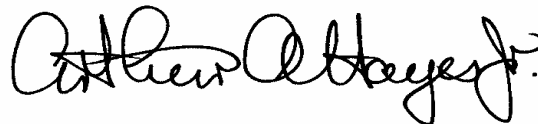
The Honorable John G. Morgan
December 15, 2003
Page Two

The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the corporation's basic financial statements. The accompanying financial information on page 34 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2003, on our consideration of the corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

Tennessee Student Assistance Corporation
Management's Discussion and Analysis
For the Year Ended June 30, 2003, and June 30, 2002

This section of the Tennessee Student Assistance Corporation's annual financial report presents a discussion and analysis of the financial performance of the corporation during the fiscal years ended June 30, 2003, and June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This annual report consists of a series of financial statements. The Statements of Net Assets and the Statements of Activities provide information about the activities of the corporation as a whole. The Balance Sheets and the Statements of Revenues, Expenditures, and Changes in Fund Balances provide financial information about the activities of the corporation's general fund. The Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets provide information about the activities for which the corporation acts solely as a trustee for the benefit of those outside the corporation.

Statements of Net Assets

The Statements of Net Assets present the financial position of those programs included in the State's Education Fund as administered by the corporation at the end of the fiscal year. They include all assets and liabilities, measured in current values, of the corporation. The difference between total assets and total liabilities—net assets—is an indicator of the corporation's current financial condition.

Statements of Net Assets

	<u>6/30/2003</u>	<u>6/30/2002</u>
Total assets	<u>\$ 7,399,445</u>	<u>\$ 7,586,231</u>
Long-term liabilities	45,010	52,272
Other liabilities	<u>1,948,034</u>	<u>1,881,688</u>
Total liabilities	<u>1,993,044</u>	<u>1,933,960</u>
Total net assets-unrestricted	<u><u>\$ 5,406,401</u></u>	<u><u>\$ 5,652,271</u></u>

Some highlights of material assets and liabilities on the Statements of Net Assets are as follows:

- The notes and interest receivables include notes and interest due the corporation from students having participated in one of the teaching loan/scholarship programs administered by the corporation. Under these programs, students agree to meet certain program conditions upon graduation. If those conditions are met, the loans are forgiven based on a previously agreed upon schedule. Any time the conditions are not met, the loan then becomes due and payable.
- Accrued liabilities include amounts due to the corporation's loan servicer. Amounts due to the federal government and advances from the federal government include funds received from the Paul Douglas Teacher Scholarship Program that are held in trust and administered by the corporation.

FY 2003 to FY 2002

The corporation's total net assets decreased \$245,870 from \$5,652,271 at June 30, 2002, to \$5,406,401 at June 30, 2003. This decrease resulted primarily from a reduction in notes receivable from Loan/Scholarship recipients. See description of notes and interest receivables above, for additional information.

Statements of Activities

The Statements of Activities present the activities occurring in those programs included in the State's Education Fund as administered by the corporation for the fiscal year.

	6/30/2003	6/30/2002
Expenses for education	\$ 49,323,566	\$ 39,923,314
Program revenues:		
Charges for services	785,625	739,163
Operating grants and contributions	1,888,451	1,173,895
Total program revenues	2,674,076	1,913,058
Net program expenses	46,649,490	38,010,256
General revenues:		
Payments from primary government	46,403,620	38,503,401
Increase (Decrease) in net assets	(245,870)	493,145
Net assets, beginning of year	5,652,271	5,159,126
Net assets, end of year	\$ 5,406,401	\$ 5,652,271

Some highlights of the Statements of Activities are as follows:

- Expenses for education included grants made in the Tennessee Student Assistance Awards and other education programs, costs incurred by the corporation in administering the programs, and loans and interest cancelled for those students participating in the loan/scholarship programs who met the requirement of those programs.
- Revenues include state appropriations for programs administered by the corporation, the collection of loan and interest payments, and refunds from those programs.

FY 2003 to FY 2002

Expenses for education increased due to additional funding that was provided to the Tennessee Student Assistance Award Program by the State Legislature for FY 2003 and for the increased grant award amounts which were received from the U.S. Department of Education. The increased award amounts allowed additional loan/scholarships which are reflected as additional expenses.

Balance Sheets - General Fund

The Balance Sheets present the current financial condition of those programs included in the state's Education Fund as administered by the corporation at the end of the fiscal year. They include all assets, liabilities, and fund balances, measured in current values, of the corporation.

Highlights of the General Fund Balance Sheets include:

- The notes and interest receivables include notes and interest due the corporation from students having participated in one of the teaching loan/scholarship programs administered by the corporation. Under these programs, students agree to meet certain program conditions upon graduation. If those conditions are met, the loans are forgiven based on a previously agreed upon schedule. Any time the conditions are not met, the loan then becomes due and payable.
- Accrued liabilities include amounts due to the corporation's loan servicer. Amounts due to the federal government and advances from the federal government include funds received from the Paul Douglas Teacher Scholarship Program that are held in trust and administered by the corporation.
- Fund balances include reserves for the loan/scholarship outstanding loans and continuing appropriations for projects begun in the fiscal year but continuing into the next fiscal year.

At June 30, 2003, and June 30, 2002, the general fund had total fund balances of \$5,492,498 and \$5,754,765, respectively. Reconciliations of the total fund balances with the total net assets presented on the Statements of Net Assets are shown at the bottom of the Balance Sheets.

FY 2003 to FY 2002

Total fund balance decreased primarily due to a reduction in notes receivable from Loan/Scholarship recipients.

Statements of Revenues, Expenditures, and Changes in Fund Balances - General Fund

Statements of Revenues, Expenditures, and Changes in Fund Balances present the results of operations for those programs included in the State's Education Fund as administered by the corporation for the fiscal years.

Highlights of the General Fund Statements of Revenues, Expenditures, and Changes in Fund Balances are as follows:

- Revenues include state and federal appropriations for programs administered by the corporation, the collection of loan interest and payments, and refunds from those programs.
- Expenditures include grants made in the Tennessee Student Assistance Awards and other education program awards made to students, administrative costs incurred by the corporation, and loans and interest cancelled for those students participating in the loan/scholarship programs. The grant payments to students are reflected as additional program expenditures.

The general fund had a deficiency of revenues under expenditures of (\$262,268) for the fiscal year ended June 30, 2003. The general fund also had an excess of revenues over expenditures of \$504,858 for the fiscal year ended June 30, 2002. Reconciliations of excess (deficiency) of revenues over (under) expenditures with increase (decrease) in net assets presented on the Statements of Activities are shown at the bottom of the Statements of Revenues, Expenditures, and Changes in Fund Balances.

FY 2003 to FY 2002

- Grant revenue from primary government was increased for the Tennessee Student Assistance Awards Program for FY 2003. As a reflection of this increase, grants expenditures were correspondingly larger.
- Federal Grant award amounts received in FY 2003 were substantially higher than the previous year, which also increased grant expenditures. Federal grant awards were higher

due to higher than anticipated supplemental monies received from the U.S. Department of Education's Leverage Educational Assistance Partnership and Special Leverage Educational Assistance Partnership Programs received as additional appropriations.

- Loan cancellations for FY 2003 were larger due to more Loan/Scholarship recipients fulfilling program requirements. However, this resulted in decreased revenues in current services when compared to FY 2002.

Statements of Fiduciary Net Assets - Federal Family Education Loan Trust Fund

The Statements of Fiduciary Net Assets present the assets and liabilities of the Federal Family Education Loan (FFEL) Trust Fund as administered by the corporation as the Federal Guaranty Agency for Tennessee.

Some highlights for the FFELP Statements of Fiduciary Net Assets include:

- Assets include cash reserves of the corporation for the FFEL Program and receivables consisting of reinsurance claims pending and not yet made.

The trust fund had net assets held in trust for student loan activities of \$72,835,674 at June 30, 2003, and \$71,997,352 at June 30, 2002.

FY 2003 to FY 2002

In accordance with increased activity in the corporation's FFEL Program, the net assets increased by \$838,322 from FY 2002 to FY 2003.

Statement of Changes in Fiduciary Net Assets - Federal Family Education Loan Trust Fund

The Statement of Changes in Fiduciary Net Assets presents the additions to and deductions from the Federal Family Education Loan Trust Fund for the fiscal year as administered by the corporation as the Federal Guaranty Agency for Tennessee.

Some highlights of the FFELP Statement of Changes in Fiduciary Net Assets are as follows:

- Additions include federal revenues in the form of fees and allowances earned by the corporation in administration of the Federal Family Education Loan Program as the Federal Guaranty Agency, interest earned on program reserves held by the corporation, and contributions from the state into the state sponsored Tennessee Student Loan Program reserves.

- Deductions include expenses incurred by the corporation in the administration of the Federal Family Education Loan Program, the Tennessee Student Loan Program, and the return of reserve funds.

FY 2003 to FY 2002

- Federal Revenue additions are subject to loan volume and payment receipt fluctuations. A multi-year analysis of the Federal Education Loan Trust Fund better reflects the Federal revenue activity of this fund.
- FY 2003 reflects reserves returned by the corporation to the U.S. Department of Education as required by the Reauthorization of the Higher Education Act of 1965. This principle reduction, combined with a lower rate of available investment return, resulted in lower additions in interest income and a reduced amount in total deductions for FY 2003.

General Fund Budgetary Highlights

Grant revenue from primary government: At mid-year, due to anticipated state revenue shortfalls for FY 2003, the corporation was requested by the Commissioner of Finance and Administration to not make further awards in the Tennessee Student Assistance Awards Program. These unexpended state appropriations were returned to the general fund at year-end.

Departmental services revenue: The Tennessee Department of Education received an increased award amount for the Robert C. Byrd Honors Scholarship Program from the U.S. Department of Education. The corporation administers this federal scholarship program for the Tennessee Department of Education.

Federal revenue: The corporation received a greater than anticipated amount due to supplemental monies being awarded to Tennessee through the U.S. Department of Education's Special Leveraging Educational Assistance Partnership Program (SLEAP). These funds were in addition to the Leveraging Educational Assistance Partnership Program (LEAP) monies normally received each year and are used in the corporation's Tennessee Student Assistance Awards Program.

Interest income: These funds were authorized in FY 2003 primarily for the McWherter Academic Scholars Program and are not normally a budgeted item.

Charges to appropriations: As instructed by the Commissioner of Finance and Administration, due to anticipated state revenue shortfalls, the corporation carefully monitored expenditures while attempting to fulfill its mission. As a result, some positions remained vacant, travel was severely cut, and many critical purchases were delayed. As previously mentioned, the corporation's major state grant program experienced cutbacks in awards. Additionally, many professional and administrative services were curtailed or delayed.

Economic Factors Affecting the Corporation's Future Financial Condition

The upcoming Reauthorization of The Higher Education Act of 1965 will affect Guarantor Agencies such as the corporation. It is premature to speculate what these changes will be, and therefore their effect on the corporation is unknown at this time. Previous actions, such as the recall of Federal Reserve Funds, required Tennessee to return \$24.9 million. Currently, the corporation is scheduled to return an additional \$2.6 million of Federal Reserve Funds in two payments during the next two years as its remaining share.

The corporation has been designated to administer the Tennessee Education Lottery Scholarship Program. Additional funding designated for this purpose was authorized by actions of the 2003 General Assembly. It is anticipated that the corporation's staff will increase by approximately 50% during FY 2004. Payments of the scholarships will begin during FY 2005 and are forecasted to be approximately \$175 million per year.

Revenue shortfalls continue to be experienced by the Tennessee State Government. The corporation was required in FY 2003 to reduce expenditures and reverted monies to the General Fund. FY 2004 funding has been permanently reduced by 9%. An additional 5% permanent reduction in the corporation's FY 2005 budget has been proposed.

Tennessee Student Assistance Corporation
Statements of Net Assets
June 30, 2003, and June 30, 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets:		
Cash (Note 2)	\$ 1,422,267.73	\$ 1,147,782.31
Receivables:		
Notes receivable	5,246,771.44	5,934,021.44
Interest receivable	561,227.13	504,382.30
Due from the federal government	169,134.00	-
Accounts receivable	<u>44.55</u>	<u>44.55</u>
Total assets	<u>7,399,444.85</u>	<u>7,586,230.60</u>
Liabilities:		
Accounts payable	25,304.61	21,830.91
Accrued liabilities	819,436.22	549,118.30
Payroll related accruals	37,098.85	43,611.34
Due to the primary government	9,075.19	10,114.65
Deferred revenue	98,422.43	107,836.99
Due to the federal government	468,854.79	403,586.44
Advance from the federal government	448,755.11	695,366.56
Compensated absences (Note 4):		
Payable within one year	41,086.26	50,222.27
Payable after one year	<u>45,010.04</u>	<u>52,272.16</u>
Total liabilities	<u>1,993,043.50</u>	<u>1,933,959.62</u>
Net assets:		
Unrestricted	\$ <u><u>5,406,401.35</u></u>	\$ <u><u>5,652,270.98</u></u>

The notes to the financial statements are an integral part of this statement.

Tennessee Student Assistance Corporation
Statements of Activities
For the Years Ended June 30, 2003, and June 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
Expenses for education:		
Grants expenses	\$ 46,649,229.63	\$ 38,096,529.13
Administrative expenses	952,671.66	941,290.23
Loan cancellations	1,721,664.68	885,494.85
Total program expenses	<u>49,323,565.97</u>	<u>39,923,314.21</u>
Program revenues:		
Charges for services	785,625.00	739,163.00
Operating grants and contributions	1,888,450.66	1,173,895.27
Total program revenues	<u>2,674,075.66</u>	<u>1,913,058.27</u>
Net program expenses	<u>46,649,490.31</u>	<u>38,010,255.94</u>
General revenues:		
Payments from primary government	<u>46,403,620.68</u>	<u>38,503,401.13</u>
Increase (decrease) in net assets	(245,869.63)	493,145.19
Net assets, beginning of year (Note 11)	<u>5,652,270.98</u>	<u>5,159,125.79</u>
Net assets, end of year	<u>\$ 5,406,401.35</u>	<u>\$ 5,652,270.98</u>

The notes to the financial statements are an integral part of this statement.

Tennessee Student Assistance Corporation
Balance Sheets
General Fund
June 30, 2003, and June 30, 2002

	June 30, 2003	June 30, 2002
Assets:		
Cash (Note 2)	\$ 1,422,267.73	\$ 1,147,782.31
Receivables:		
Notes receivable	5,246,771.44	5,934,021.44
Interest receivable	561,227.13	504,382.30
Due from the federal government	169,134.00	-
Accounts receivable	44.55	44.55
Total assets	\$ 7,399,444.85	\$ 7,586,230.60
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 25,304.61	\$ 21,830.91
Accrued liabilities	819,436.22	549,118.30
Payroll related accruals	37,098.85	43,611.34
Due to the primary government	9,075.19	10,114.65
Deferred revenue	98,422.43	107,836.99
Due to the federal government	468,854.79	403,586.44
Advance from the federal government	448,755.11	695,366.56
Total liabilities	1,906,947.20	1,831,465.19
Fund balances (Note 5):		
Reserved for related assets	5,246,771.44	5,934,021.44
Reserved for other specific purposes	15,726.21	(295,478.03)
Reserved for continuing appropriations	230,000.00	116,222.00
Total fund balances	5,492,497.65	5,754,765.41
Total liabilities and fund balances	\$ 7,399,444.85	\$ 7,586,230.60
Reconciliation to Statement of Net Assets		
Total fund balances	\$ 5,492,497.65	\$ 5,754,765.41
Compensated absences liability not reported in the fund	(86,096.30)	(102,494.43)
Total net assets	\$ 5,406,401.35	\$ 5,652,270.98

The notes to the financial statements are an integral part of this statement.

Tennessee Student Assistance Corporation
Statements of Revenues, Expenditures, and
Changes in Fund Balances
General Fund
For the Years Ended June 30, 2003, and June 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
Revenues:		
Grant revenue from primary government	\$ 46,403,620.68	\$ 38,503,401.13
Departmental services revenue	785,625.00	739,163.00
Federal revenue	1,731,552.00	1,005,366.07
Interest income	156,898.66	168,529.20
Total revenues	<u>49,077,696.34</u>	<u>40,416,459.40</u>
Expenditures:		
Grants expenditures	46,649,229.63	38,096,529.13
Administrative expenditures	969,069.79	929,577.06
Loan cancellations	1,721,664.68	885,494.85
Total expenditures	<u>49,339,964.10</u>	<u>39,911,601.04</u>
Excess (deficiency) of revenues over (under) expenditures	(262,267.76)	504,858.36
Fund balance, beginning of year	<u>5,754,765.41</u>	<u>5,249,907.05</u>
Fund balance, end of year	\$ <u><u>5,492,497.65</u></u>	\$ <u><u>5,754,765.41</u></u>

Reconciliation to Statement of Activities

Excess (deficiency) of revenues over (under) expenditures	\$ (262,267.76)	\$ 504,858.36
Compensated absences expense not reported as an expenditure in the fund	<u>16,398.13</u>	<u>(11,713.17)</u>
Increase (decrease) in net assets	\$ <u><u>(245,869.63)</u></u>	\$ <u><u>493,145.19</u></u>

The notes to the financial statements are an integral part of this statement.

Tennessee Student Assistance Corporation
Statements of Fiduciary Net Assets
Federal Family Education Loan Trust Fund
June 30, 2003, and June 30, 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets:		
Cash (Note 2)	\$ 55,892,989.73	\$ 70,611,667.79
Receivables:		
Due from the federal government	761,581.00	3,989,253.84
Claims receivable	<u>16,254,543.03</u>	<u>22,350,074.76</u>
Total assets	<u>72,909,113.76</u>	<u>96,950,996.39</u>
Liabilities:		
Accounts payable	73,440.24	-
Due to the federal government (Note 6)	<u>-</u>	<u>24,953,644.00</u>
Total liabilities	<u>73,440.24</u>	<u>24,953,644.00</u>
Net assets:		
Held in trust for student loans (Note 6)	\$ <u><u>72,835,673.52</u></u>	\$ <u><u>71,997,352.39</u></u>

The notes to the financial statements are an integral part of this statement.

Tennessee Student Assistance Corporation
Statements of Changes in Fiduciary Net Assets
Federal Family Education Loan Trust Fund
For the Years Ended June 30, 2003, and June 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
Additions:		
Federal revenue	\$ 14,861,501.91	\$ 19,105,290.60
Interest income	867,668.11	1,787,736.92
Contribution from primary government	207,192.00	221,083.00
Miscellaneous	80,378.86	18,950.81
Total additions	<u>16,016,740.88</u>	<u>21,133,061.33</u>
Deductions:		
Administrative expenses	5,975,730.54	5,840,520.48
Collection expense	9,202,689.21	7,355,882.79
Bad debt expense	-	94,427.69
Return of reserve funds to the federal government (Note 6)	-	24,953,644.00
Total deductions	<u>15,178,419.75</u>	<u>38,244,474.96</u>
Increase (decrease) in net assets	838,321.13	(17,111,413.63)
Net assets, beginning of year	<u>71,997,352.39</u>	<u>89,108,766.02</u>
Net assets, end of year	<u>\$ 72,835,673.52</u>	<u>\$ 71,997,352.39</u>

The notes to the financial statements are an integral part of this statement.

Tennessee Student Assistance Corporation
Notes to the Financial Statements
June 30, 2003, and June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The corporation is responsible for guaranteeing student loans under federal programs and administering federal and state grants/loans to students. The corporation is a component unit of the State of Tennessee. Although it is a separate legal entity, the majority of its board members are either appointed by the Governor or are state officials, and the corporation's budget is approved by the state. The corporation is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The financial statements required by that statement provide a government-wide perspective of the corporation's assets, liabilities, net assets, revenues, expenses, and changes in net assets, in addition to the fund perspective previously required.

Measurement Focus and Basis of Accounting – Government-wide Statements

The government-wide financial statements include the statement of net assets and the statement of activities and report information about the corporation as a whole, except for the fiduciary fund. The government-wide financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The corporation has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The corporation elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

Measurement Focus and Basis of Accounting – General Fund Statements

The general fund is used to account for all financial transactions not required to be accounted for in another fund. The fund financial statements for the general fund include the balance sheet and the statement of revenues, expenditures, and changes in fund balances. The general fund financial statements have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. The corporation considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded at the time fund liabilities are incurred.

Measurement Focus and Basis of Accounting – Fiduciary Fund Statements

The Federal Family Education Loan Trust Fund is a private-purpose trust fund, which is used to account for the activities of a trust whose principal and income may be used for the purpose of the trust. The fund financial statements for the Federal Family Education Loan Trust Fund include the statement of fiduciary net assets and the statement of changes in fiduciary net assets. The fiduciary fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting except that (1) interest is not accrued on notes purchased under the provisions of the Federal Family Education Loan Program, as explained below; and (2) student loan guaranty fees are recorded as income in the year received rather than being amortized over the life of the student loans guaranteed.

Compensated Absences

It is the corporation's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the corporation's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide financial statements.

Accrual of Interest

Since the beginning of the federal loan program in 1963, the corporation has purchased insured loans whenever the student has defaulted, been declared bankrupt, died, or become totally and permanently disabled. Subsequent transactions with the U.S. Department of Education reduce the corporation's equity in these loans.

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

Since it is anticipated that a large number of these loans are uncollectible, the corporation does not accrue interest on them but does attempt to collect interest on each one if repayment terms can be established with the borrower.

NOTE 2. CASH

This classification includes demand deposits and \$100.00 of petty cash on hand. The demand deposits are in the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 3. CAPITAL ASSETS

Equipment is reported in the statement of net assets at cost less accumulated depreciation. A capitalization threshold of \$5,000 is used for equipment, and equipment is depreciated over five years using the straight-line method.

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Equipment	\$ -	\$ -	\$ -	\$ -

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Equipment	\$5,290.50	\$ -	\$5,290.50	\$ -

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

NOTE 4. COMPENSATED ABSENCES

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$102,494.43	\$64,125.17	\$80,523.30	\$86,096.30	\$41,086.26

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$90,781.26	\$97,422.15	\$85,708.98	\$102,494.43	\$50,222.27

NOTE 5. FUND BALANCE RESERVES

The fund balance reserves represent those portions of fund balance (1) not appropriate for expenditure—reserved for related assets—or (2) legally segregated for a specific future use—reserved for other specific purposes and reserved for continuing appropriations.

NOTE 6. NET ASSETS HELD IN TRUST FOR STUDENT LOANS

The corporation is required by state law to maintain a reserve equal to 10 percent of all outstanding loans that it has insured. The corporation has an agreement with the U.S. Department of Education whereby the federal government reinsures all loans insured by the corporation for at least 80 percent of the principal amount for loans made prior to October 1, 1993; 78 percent for loans made from October 1, 1993,

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

through September 30, 1998; and 75% for loans made after October 1, 1998. Therefore, the corporation maintains a cash reserve equal to at least 2 percent of the outstanding loans that it has insured. The statutory reserve is invested by the Treasurer of Tennessee along with idle cash of the state, and a pro rata share of the monthly interest is paid to the corporation. By agreement, the corporation is free to withdraw from this investment pool such amounts as may be needed to honor its commitments under loan insurance agreements with commercial lenders. At June 30, 2003, the corporation had insured loans outstanding of \$3,325,912,198.40, and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program reserve in the amount of \$56,581,130.49. At June 30, 2002, the corporation had insured loans outstanding of \$2,833,889,036.45, and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program reserve in the amount of \$74,379,838.63.

During the year ended June 30, 2002, the U.S. Department of Education determined that the corporation, as a guaranty agency under the Federal Family Education Loan Program, had to return a portion of the reserve funds based on a federal reserve recall requirement in the Higher Education Act of 1965, as amended. A portion of the amount (\$1,356,427) was remitted on September 4, 2002, and the remainder (\$23,597,217) was remitted on September 6.

NOTE 7. DEFINED BENEFIT PENSION PLAN

Plan Description - The corporation contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHIEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The corporation is required to contribute an actuarially determined rate. The current rate is 7.29% of annual

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

covered payroll. Contribution requirements for the corporation are established and may be amended by the TCRS' Board of Trustees. The corporation's contributions to TCRS for the years ended June 30, 2003, 2002, and 2001, were \$68,698.98, \$59,512.24, and \$51,635.70. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible corporation retirees. This benefit is provided and administered by the State of Tennessee. The corporation assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 9. RISK MANAGEMENT

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three years, the state has had no claims filed with the commercial insurer. A designation for casualty losses in the amount of \$3.271 million for incurred losses at June 30, 2003, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The corporation participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the corporation based on a percentage of the corporation's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of the fiscal year-end to determine the fund liability and premium allocation. Since the corporation participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-

Tennessee Student Assistance Corporation
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

101 et seq. Liability for negligence of the corporation for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The corporation participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the corporation based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The corporation records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$260,915.03 at June 30, 2003, and \$371,146.90 at June 30, 2002.

Operating Lease - The corporation has entered into an operating lease for office space. This lease will probably continue to be required. Expenditures under the operating lease were \$164,442.00 for the year ended June 30, 2003, and \$158,010.00 for the year ended June 30, 2002. The operating lease is cancelable at the lessee's option.

Litigation - The corporation is involved in two lawsuits, neither of which is expected to have a material effect on the accompanying financial statements.

NOTE 11. PRIOR-YEAR RESTATEMENT

Due to the implementation of GASB Statement 34, the net assets, beginning of year on the statement of activities for the year ended June 30, 2002, reflects a decrease of \$90,781.26 from the prior year's ending fund balance to account for the compensated absences liability at June 30, 2001.

SUPPLEMENTARY INFORMATION
TENNESSEE STUDENT ASSISTANCE CORPORATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	FOR THE YEAR ENDED JUNE 30, 2003				FOR THE YEAR ENDED JUNE 30, 2002			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Budgetary fund balance, July 1	\$ 5,754,765.41	\$ 5,754,765.41	\$ 5,754,765.41	\$ -	\$ 5,249,907.05	\$ 5,249,907.05	\$ 5,249,907.05	\$ -
Resources (inflows):								
Grant revenue from primary government	55,358,700.00	47,978,900.00	46,403,620.68	(1,575,279.32)	40,906,100.00	40,925,800.00	38,503,401.13	(2,422,398.87)
Departmental services revenue	932,500.00	932,500.00	785,625.00	(146,875.00)	893,500.00	893,500.00	739,163.00	(154,337.00)
Federal revenue	1,562,400.00	1,562,400.00	1,731,552.00	169,152.00	680,100.00	680,100.00	1,005,366.07	325,266.07
Interest income	-	-	156,898.66	156,898.66	-	-	168,529.20	168,529.20
Amounts available for appropriation	<u>63,608,365.41</u>	<u>56,228,565.41</u>	<u>54,832,461.75</u>	<u>(1,396,103.66)</u>	<u>47,729,607.05</u>	<u>47,749,307.05</u>	<u>45,666,366.45</u>	<u>(2,082,940.60)</u>
Charges to appropriations (outflows):								
Personal services	542,400.00	542,400.00	490,605.54	51,794.46	534,672.00	534,672.00	438,220.82	96,451.18
Employee benefits	146,380.00	146,380.00	142,512.40	3,867.60	128,508.00	128,508.00	111,945.16	16,562.84
Travel	43,000.00	43,000.00	9,635.84	33,364.16	43,000.00	43,000.00	7,530.69	35,469.31
Printing, duplicating, and film processing	16,500.00	16,500.00	17,011.82	(511.82)	16,500.00	16,500.00	16,098.87	401.13
Communication and shipping cost	110,000.00	110,000.00	81,957.22	28,042.78	99,300.00	99,300.00	79,942.78	19,357.22
Maintenance, repairs, and services	1,700.00	1,700.00	495.00	1,205.00	1,700.00	1,700.00	93.06	1,606.94
Professional and administrative services	174,020.00	174,020.00	19,148.81	154,871.19	174,020.00	174,020.00	51,893.83	122,126.17
Supplies	42,600.00	42,600.00	13,706.45	28,893.55	44,600.00	44,600.00	14,362.10	30,237.90
Rentals and insurance	66,800.00	66,800.00	84,289.55	(17,489.55)	66,800.00	66,800.00	70,324.15	(3,524.15)
Awards and indemnities	1,050.00	1,050.00	-	1,050.00	50.00	50.00	153.80	(103.80)
Grants and subsidies	49,118,850.00	49,118,850.00	48,372,587.94	746,262.06	41,179,750.00	41,179,750.00	38,982,618.04	2,197,131.96
Professional services	<u>210,500.00</u>	<u>210,500.00</u>	<u>108,013.53</u>	<u>102,486.47</u>	<u>210,500.00</u>	<u>210,500.00</u>	<u>138,417.74</u>	<u>72,082.26</u>
Total charges to appropriations	<u>50,473,800.00</u>	<u>50,473,800.00</u>	<u>49,339,964.10</u>	<u>1,133,835.90</u>	<u>42,499,400.00</u>	<u>42,499,400.00</u>	<u>39,911,601.04</u>	<u>2,587,798.96</u>
Budgetary fund balance, June 30	\$ <u>13,134,565.41</u>	\$ <u>5,754,765.41</u>	\$ <u>5,492,497.65</u>	\$ <u>(262,267.76)</u>	\$ <u>5,230,207.05</u>	\$ <u>5,249,907.05</u>	\$ <u>5,754,765.41</u>	\$ <u>504,858.36</u>